NATURALLY PROGRESSIVE

Polokwane Local Municipality
Annual Financial Statements
for the year ended 30 June 2019

Polokwane Local Municipality
Annual Financial Statements for the year ended 30 June 2019

General Information

Legal form of entity	The City of Polokwane is a category B local authority established in terms of section 151 of the Constitution of the Republic of South Africa (Act 108 of 1996)
Executive Mayor	TP Nkadimeng
Mayoral committee	
	MJ Ralefatane
	MK Teffo
	RC Molepo
	NW Kganyago
	MF Kubjana
	H Shaikh
	LR Setati
	SM Mashabela
	T Nkwe
	EL Maraba
	MJ Maja
	SJ Malope
Councillors	AR Baloyi
	AH Botha
	TDR Chidi
	C Coetzee
	SJ Dikgale
	FA Haas
	PJ Hiine
	TE Hopane
	FJ Joubert
	MJ Kaka
	N Khan
	MW Laka
	MV Ledwaba
	NJ Lekgodi
	Z Lekgodi
	LF Lephalala
	RF Lourens
	MG Mabote
	NE Machaba
	MF Maenetja
	ME Makamela
	TP Makgopja
	JF Makwela
	ME Malatji
	MB Malebana
	ME Maleka
	RR Malema
	HS Manaka
	PE Manamela
	HM Mankga
	HF Marx
	AM Masekela

General Information

	TS Mashau
	MC Mashaine
	MV Mathye
	MT Matonzi
	ML Mehlape
	JL Meyer
	MA Moakamedi
	MT Modiba
	MS Modiba
	TF Moeti
	TJ Mogale
	DM Mohlabeng
	MF Mohlasedi
	RP Mohlaona
	TSP Mojapelo
	FJ Molepo
	MB Molope
	PE Moshoeu
	MS Mothapo
	ME Mothapo
	JE Mothapo
	ML Mothata
	LS Mothata
	MJ Mothiba
	KJ Mphekgwana
	TG Phaka
	MR Phala
	MS Phosoko
	KW Phosoko
	M Pretorius
	MM Ramakgoakgoa
	MF Ramaphakela
	MO Ramaphoko
	PA Rapetswa
	TR Raphela
	MW Sathekge
	MD Sebati
	MR Sekgobela
	MP Seleka
	MC Sesera
	NA Shivhabu
	KM Skosana
	KG Tsheola
	MM Tsiri
	K Vallabh
Grading of local authority	Grade 10
Chief Finance Officer (CFO)	N Essa
Accounting Officer	DH Makobe

General Information

Business address	Civic Centre Cnr Landros Mare and Bodenstein Streets Polokwane 0699
Postal address	P O Box 111 Polokwane 0700
Bankers	Standard Bank
Auditors	Auditor General South Africa Registered Auditors
Attorneys	Pule Incorporated Mogaswa Attorneys AM Carrims Attorneys Maboku Mangena Attorneys Kgatla Incorporated Matabane Incorporated Noko Maimela Incorporated Rachoene Attorneys
Level of assurance	These annual financial statements have been compiled with the applicable requirements of the Municipal Finance Management Act 56 of 2003..
Preparer	The annual financial statements were internally compiled by:
Published	30 June 2019
Members of the Audit and Performance Audit Committee	
	Mr HG Hlomane Adv. HSRR Nke Mr R Tshimomola Ms MP Ramutsheli Mr BW Mbewu

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of Southern Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the 30 June 2019 to 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statements set out on page 6, which have been prepared on the going concern basis, were approved by the accounting officer on 30 June 2019 and were signed on its behalf by:

Municipal Manager

Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	61 635 084	2 042 879
Investments	4	124 239 916	112 501 102
Receivables from exchange	5	496 699 359	382 225 529
Other receivables from exchange transactions	6	17 754 628	20 434 457
Receivables from non-exchange transactions	7	376 653 902	298 813 372
Inventories	8	143 682 853	162 966 103
VAT receivable	9	169 630 526	58 253 018
		1 390 296 268	**1 037 236 460**
Non-Current Assets			
Investment property	10	749 428 236	724 131 490
Property, plant and equipment	11	3 095 411 418	2 671 358 423
Biological assets that form part of an agricultural activity	12	4 732 398	11 833 140
Heritage assets	13	21 899 818	21 899 818
Intangible assets	14	35 401 467	11 410 637
Investments in controlled entities	15	1 000	1 000
Other receivables from exchange transactions	6	144 352	144 352
		3 907 018 689	**3 440 778 860**
Total Assets		**5 297 314 957**	**4 478 015 320**
Liabilities			
Current Liabilities			
Consumer deposits	16	63 612 112	72 407 104
Payables from exchange transactions	17	1 006 419 181	607 945 058
Current portion of long term loans	18	9 600 879	48 436 796
VAT payable	19	150 443 488	-
Unspent conditional grants and receipts	20	117 212 895	153 471 903
Finance lease obligation	21	2 872 234	2 872 234
Provisions	22	8 164 940	8 164 940
		1 358 325 729	**893 298 035**
Non-Current Liabilities			
Current portion of long term loans	18	512 977 719	512 977 719
Finance lease obligation	21	24 420 518	3 961 712
Provisions	22	174 284 431	127 531 764
Employee benefit obligation	23	193 906 000	163 547 000
		905 588 668	**808 018 195**
Total Liabilities		**2 263 914 397**	**1 701 316 230**
Net Assets		**3 033 400 560**	**2 776 699 090**
Reserves			
Revaluation reserve	24	7 424 537 335	7 426 020 555
Accumulated surplus		5 608 863 225	5 350 678 547
Total Net Assets		**3 033 400 560**	**2 776 699 102**

* See Note 51

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	25	1 405 749 530	1 328 116 045
Rental of facilities and equipment	26	14 721 734	15 730 400
Interest received (trading)		-	(84 188)
Agency services	27	23 520 165	17 345 085
Licences and permits	28	11 241 520	11 251 033
Other income	29	13 669 848	112 640 975
Interest received - investment	30	13 123 882	29 592 700
Total revenue from exchange transactions		**1 482 026 679**	**1 514 592 050**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	31	418 004 802	360 161 269
Interest earned on outstanding debtors	33	64 961 794	77 045 047
Transfer revenue			
Government grants & subsidies	34	2 037 787 826	1 486 153 995
Public contributions and donations	35	1 551 667	1 036 482
Fines, Penalties and Forfeits	36	35 764 257	20 985 068
Total revenue from non-exchange transactions		**2 558 070 346**	**1 945 381 861**
Total revenue	37	**4 040 097 025**	**3 459 973 911**
Expenditure			
Employee related costs	38	(854 297 099)	(760 451 342)
Remuneration of councillors	39	(37 953 707)	(36 190 111)
Depreciation and amortisation	40	(729 667 599)	(798 309 037)
Finance costs	41	(62 780 466)	(63 644 729)
Bad debts written off	5	(152 106 772)	(151 266 404)
Bulk purchases	42	(820 979 262)	(802 365 370)
Contracted services	43	(814 603 087)	(749 885 545)
Transfers and Subsidies	44	(8 420 000)	(9 479 750)
Inventory consumed	45	(69 363 399)	(93 472 150)
General Expenses	46	(239 150 603)	(265 059 117)
Total expenditure		**(3 789 321 994)**	**(3 730 123 555)**
Operating surplus (deficit)		**250 775 031**	**(270 149 644)**
Gain on disposal of assets and liabilities		18 648 702	54 397 647
Fair value adjustments	47	(9 561 928)	4 467 587
Impairment loss	48	(3 540 467)	(4 853 363)
Share of surpluses or deficits from associates or joint ventures accounted for using the equity method		-	40 656
Inventories losses/write-downs		-	(522 083)
		5 546 307	**53 530 444**
Surplus (deficit) for the year		**256 321 338**	**(216 619 200)**

* See Note 51

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	7 369 438 589	6 425 486 086	3 794 924 675
Adjustments			
Correction of errors	-	(801 606 373)	(801 606 373)
Balance at 01 July 2017 as restated*	**7 369 438 589**	**5 623 879 713**	**2 993 318 302**
Changes in net assets			
Other fair value gains (losses)	56 581 966	(56 581 966)	-
Net income (losses) recognised directly in net assets	56 581 966	(56 581 966)	-
Surplus for the year	-	(216 619 200)	(216 619 200)
Total recognised income and expenses for the year	56 581 966	(273 201 166)	(216 619 200)
Total changes	56 581 966	(273 201 166)	(216 619 200)
Opening balance as previously reported	7 426 020 555	5 267 408 812	2 693 429 367
Adjustments			
Correction of errors	-	85 133 075	85 133 075
Restated* Balance at 01 July 2018 as restated*	**7 426 020 555**	**5 352 541 887**	**2 778 562 442**
Changes in net assets			
Revaluation of non current assets	(1 483 220)	-	(1 483 220)
Net income (losses) recognised directly in net assets	(1 483 220)	-	(1 483 220)
Surplus for the year	-	256 321 338	256 321 338
Total recognised income and expenses for the year	(1 483 220)	256 321 338	254 838 118
Total changes	(1 483 220)	256 321 338	254 838 118
Balance at 30 June 2019	**7 424 537 335**	**5 608 863 225**	**3 033 400 560**
Note(s)	24		

* See Note 51

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Cash receipts from customers, government and others		3 816 045 499	3 167 169 572
Interest income		68 504 549	29 592 700
VAT received		72 975 955	(29 105 428)
		3 957 526 003	3 167 656 844
Payments			
Cash paid to suppliers and employees		(2 608 982 394)	(2 586 172 944)
Finance costs		(62 780 466)	(53 777 770)
		(2 671 762 860)	(2 639 950 714)
Net cash flows from operating activities	50	**1 285 763 143**	**527 706 130**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(1 153 720 594)	(869 875 287)
Purchase of other intangible assets	14	(31 483 499)	(9 049 615)
Proceeds from sale of financial assets		-	137 977 796
Net cash flows from investing activities		**(1 185 204 093)**	**(740 947 106)**
Cash flows from financing activities			
Proceeds from current portion of long term loans		-	205 000 000
Repayment of current portion of long term loans		(38 835 917)	(59 829 253)
Finance lease payments		(2 130 928)	(27 924 886)
Net cash flows from financing activities		**(40 966 845)**	**117 245 861**
Net increase/(decrease) in cash and cash equivalents		**59 592 205**	**(95 995 115)**
Cash and cash equivalents at the beginning of the year		2 042 879	98 037 995
Cash and cash equivalents at the end of the year	3	**61 635 084**	**2 042 880**

* See Note 51

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1 518 870 000	55 847 000	**1 574 717 000**	1 409 902 625	**(164 814 375)**	
Rental of facilities and equipment	37 297 000	-	**37 297 000**	14 721 734	**(22 575 266)**	
Agency services	25 000 000	-	**25 000 000**	23 520 165	**(1 479 835)**	
Licences and permits	14 890 000	-	**14 890 000**	11 241 520	**(3 648 480)**	
Other income - (rollup)	424 952 000	(25 333 004)	**399 618 996**	13 669 848	**(385 949 148)**	
Interest received - investment	47 281 000	(20 000 000)	**27 281 000**	13 123 882	**(14 157 118)**	
Total revenue from exchange transactions	**2 068 290 000**	**10 513 996**	**2 078 803 996**	**1 486 179 774**	**(592 624 222)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	461 484 000	(29 666 000)	**431 818 000**	418 004 802	**(13 813 198)**	
Interest earned on outstanding debtors	80 000 000	-	**80 000 000**	64 961 794	**(15 038 206)**	
Transfer revenue						
Government grants & subsidies	1 821 645 000	333 751 605	**2 155 396 605**	2 037 787 826	**(117 608 779)**	
Public contributions and donations	-	-	**-**	1 551 667	**1 551 667**	
Fines, Penalties and Forfeits	16 000 000	-	**16 000 000**	35 764 257	**19 764 257**	
Total revenue from non-exchange transactions	**2 379 129 000**	**304 085 605**	**2 683 214 605**	**2 558 070 346**	**(125 144 259)**	
Total revenue	**4 447 419 000**	**314 599 601**	**4 762 018 601**	**4 044 250 120**	**(717 768 481)**	
Expenditure						
Personnel	(817 423 000)	(50 623 207)	**(868 046 207)**	(854 297 099)	**13 749 108**	
Remuneration of councillors	(40 518 000)	2 564 283	**(37 953 717)**	(37 953 707)	**10**	
Depreciation and amortisation	(190 000 000)	(50 460 106)	**(240 460 106)**	(729 667 599)	**(489 207 493)**	
Impairment loss/ Reversal of impairments	-	-	**-**	(3 540 467)	**(3 540 467)**	
Finance costs	(107 500 000)	44 692 116	**(62 807 884)**	(62 780 466)	**27 418**	
Bad debts written off	(235 000 000)	82 893 227	**(152 106 773)**	(152 106 772)	**1**	
Bulk purchases	(905 497 000)	84 517 738	**(820 979 262)**	(820 979 262)	**-**	
Contracted Services	(796 325 000)	(109 198 155)	**(905 523 155)**	(814 603 087)	**90 920 068**	
Transfers and Subsidies	(11 500 000)	-	**(11 500 000)**	(8 420 000)	**3 080 000**	
Sale of goods/Inventory	(37 666 000)	(34 793 134)	**(72 459 134)**	(69 363 399)	**3 095 735**	
General Expenses	(207 260 000)	(44 265 819)	**(251 525 819)**	(239 150 603)	**12 375 216**	
Total expenditure	**(3 348 689 000)**	**(74 673 057)**	**(3 423 362 057)**	**(3 792 862 461)**	**(369 500 404)**	
Operating surplus	**1 098 730 000**	**239 926 544**	**1 338 656 544**	**251 387 659**	**(1 087 268 885)**	
Gain on disposal of assets and liabilities	(100)	-	**(100)**	18 648 702	**18 648 802**	
Fair value adjustments	-	-	**-**	(9 561 928)	**(9 561 928)**	
	(100)	**-**	**(100)**	**9 086 774**	**9 086 874**	
Surplus before taxation	**1 098 729 900**	**239 926 544**	**1 338 656 444**	**260 474 433**	**(1 078 182 011)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**1 098 729 900**	**239 926 544**	**1 338 656 444**	**260 474 433**	**(1 078 182 011)**	
Reconciliation						

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Transfer of functions between entities not under common control

Definitions

An acquiree is the entity and/or the functions that the acquirer obtains control of in a transfer of functions.

An acquirer is the entity that obtains control of the acquiree or transferor.

Acquisition date is the date on which the acquirer obtains control of the acquiree.

Contingent consideration is usually, an obligation of the acquirer to transfer additional assets or a residual interest to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.

Control is the power to govern the financial and operating policies of another entity so as to obtain benefit from its activities.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an entity’s objectives, either by providing economic benefits or service potential.

An asset is identifiable if it either:

1.4 Transfer of functions between entities not under common control (continued)

- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

A merger is the establishment of a new combined entity in which none of the former entities obtain control over any other and no acquirer can be identified.

Non-controlling interest is the interest in the net assets of a controlled entity not attributable, directly or indirectly, to a controlling entity.

Owners (for the purposes of this Standard), is used broadly to include holders of residual interests.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another entity.

The acquisition method

The municipality accounts for each transfer of functions between entities not under common control by applying the acquisition method.

Applying the acquisition method requires:
(a) identifying the acquirer;
(b) determining the acquisition date;
(c) recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
(d) recognising the difference between (c) and the consideration transferred to the seller.

Identifying the acquirer

For each transfer of functions between entities not under common control, one of the combining entities is identified as the acquirer.

The terms and conditions of a transfer of functions undertaken between entities not under common control are set out in a binding arrangement.

Determining the acquirer includes a consideration of, amongst other things, which of the combining entities initiated the transaction or event, the relative size of the combining entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. If no acquirer can be identified, the transaction or event is accounted for in terms of the Standard of GRAP on Mergers.

Determining the acquisition date

The acquirer identifies the acquisition date, which is the date on which it obtains control of the acquiree.

All relevant facts and circumstances are considered in identifying the transfer date.

Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

Recognition principle

1.4 Transfer of functions between entities not under common control (continued)

As of the acquisition date, the municipality as acquirer recognises, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.

Recognition conditions:

To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements and the recognition criteria in the applicable Standards of GRAP at the acquisition date.

In addition, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must be part of what the municipality as acquirer and the acquiree (or its former owners) agreed in the binding arrangement rather than the result of separate transactions.

Operating leases:

The municipality as acquirer recognises no assets or liabilities related to an operating lease in which the acquiree is the lessee.

The municipality as acquirer determines whether the terms of each operating lease in which the acquiree is the lessee are favourable or unfavourable. The municipality as acquirer recognises an intangible asset if the terms of an operating lease are favourable relative to market terms and a liability if the terms are unfavourable relative to market terms.

An identifiable intangible asset may be associated with an operating lease, which may be evidenced by market participants‘ willingness to pay a price for the lease even if it is at market terms.

Intangible assets:

The municipality as acquirer separately recognises the identifiable intangible assets acquired in a transfer of functions. An intangible asset is identifiable if it meets either the separability criterion or the contractual-legal right criterion.

Classifying or designating identifiable assets acquired and liabilities assumed in a transfer of functions:

At the acquisition date, the municipality as acquirer classifies or designates the identifiable assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequent to the acquisition date. The municipality as acquirer makes those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, its operating or accounting policies and other relevant conditions as they exist at the acquisition date.

Measurement principle

The municipality as acquirer measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

Non-controlling interest in an acquiree:

For each transfer of functions, the municipality as acquirer measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity‘s net assets in the event of liquidation at either:

- fair value; or
- the present ownership instruments‘ proportionate share in the recognised amounts of the acquiree‘s identifiable net assets.

Assets with uncertain cash flows (valuation allowances):

The municipality as acquirer does not recognise a separate valuation allowance as of the acquisition date for assets acquired in a transfer of functions that are measured at their acquisition-date fair values because the effects of uncertainty about future cash flows are included in the fair value measure.

Assets subject to operating leases in which the acquiree is the lessor:

In measuring the acquisition-date fair value of an asset such as a building or a patent that is subject to an operating lease in which the acquiree is the lessor, the municipality as acquirer takes into account the terms of the lease.

1.4 Transfer of functions between entities not under common control (continued)

Exceptions to the recognition principles

Contingent liabilities:

The requirements in the Standard of GRAP on Provisions, Contingent assets and Contingent liabilities do not apply in determining which contingent liabilities to recognise as of the acquisition date. Instead, the municipality as acquirer recognises as of the acquisition date a contingent liability assumed in a transfer of functions if it is a present obligation that arises from past events and its fair value can be measured reliably.

Exceptions to both the recognition and measurement principles

Employee benefits:

The municipality as acquirer recognises and measures a liability (or asset, if any) related to the acquiree‘s employee benefit arrangements in accordance with the Standard of GRAP on Employee Benefits.

Indemnification assets:

The seller in a transfer of functions may contractually indemnify the municipality as acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. The municipality as acquirer recognises an indemnification asset at the same time that it recognises the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. Therefore, if the indemnification relates to an asset or a liability that is recognised at the acquisition date and measured at its acquisition-date fair value, the municipality as acquirer recognises the indemnification asset at the acquisition date measured at its acquisition-date fair value. For an indemnification asset measured at fair value, the effects of uncertainty about future cash flows because of collectability considerations are included in the fair value measure and a separate valuation allowance is not necessary.

Exceptions to the measurement principle

Reacquired rights:

The municipality as acquirer measures the value of a reacquired right recognised as an intangible asset on the basis of the remaining contractual term of the related contract or other binding arrangement regardless of whether market participants would consider potential renewals of the contract or other binding arrangement in determining its fair value.

Assets held for sale:

The municipality as acquirer measures an acquired non-current asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with the Standard of GRAP on Non-current assets held for sale and Discontinued operations at fair value less costs to sell.

Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred (if any)

The municipality as acquirer recognises the difference between the assets acquired and liabilities assumed and the consideration transferred (if any) as of the acquisition date in surplus or deficit. This difference is measured as the excess of (a) over (b) below:
(a) the aggregate of:
(i) the consideration transferred (if any) measured in accordance with this Standard, which generally requires acquisition-date fair value;
(ii) the amount of any non-controlling interest in the acquiree measured in accordance with this Standard; and
(iii) in a transfer of functions achieved in stages, the acquisition-date fair value of the entity as acquirer’s previously held equity interest in the acquiree.
(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this Standard.

Subsequent measurement and accounting

1.4 Transfer of functions between entities not under common control (continued)

In general, a municipality as acquirer subsequently measure and account for assets acquired, liabilities assumed or incurred and the residual interest issued in a transfer of functions in accordance with other applicable Standards of GRAP for those items, depending on their nature.

1.5 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality has identified all its captial assets excluding Investment Property, as non-cash generating assets as it is the municipality's view that the primary objective of these assets are to provide a service and not to generate a commercial return. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors together with economic factors..

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 22 - Provisions.

Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty (continued)

Inventories

Unsold properties are taken at fair value on the date when the intention to dispose land has arisen to the inventory from investment property on initial recognition.

Water inventory is measured on average cost basis per kilolitre.

Post-retirement benefits

The present value of the post-retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 23.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Useful lives of assets

The municipality's management determines the estimated useful lives and related depreciation charges. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Residual value

The estimated value of an asset at the end of its useful life, or the value that remains at the end of the analysis period where the asset useful life exceed the analysis period. The residual value is considered as a benefit (cash inflow) in the final year of the analysis period.Additional text

Revenue-estimation meter readings

Where meter readings are not available meter readings are estimated as follows:

i) where the readings are not available other than as a result of a meter fault, estimations are done by using the consumption of the reading of the same period of the preceding year, or an average of any consecutive two months.Additional text

ii) where Council or the owner are of the opinion that the meter is faulty, such a meter must be replaced and sent for testing. The results of the testing of a meter will determine the correction of the account as prescribed in the respective year's Tariff of Charges Policy.

Accounting Policies

1.6 Biological assets that form part of an agricultural activity

The entity recognises biological assets or agricultural produce when, and only when:
- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at their fair value less costs to sell.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit..

A gain or loss arising on initial recognition of biological assets or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of biological assets is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

An unconditional government grant related to biological assets measured at its fair value less costs to sell is recognised as income when the government grant becomes receivable.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on biological assets where fair value cannot be determined, to write down the cost, less residual value, by equal instalments over their useful lives as follows:

1.7 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

The cost of self-constructed investment property is the cost at date of completion.

Transfers are made to and or from investment property only when there is a change in use. For a transfer from invesment property to owner occupied property (property, plant and equipment), the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the entity accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

1.7 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value. This entails determining the fair value of the investment property on a regular basis. To the extent that the fair value model is applied investment property is not depreciated.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Derecognition

An investment property is derecognised when there is a disposal or no future economic benefits or service potential are to be derived from the property. All gains or losses, which result from the derecognition, are recognised in the Statement of Financial Performance.

1.8 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

1.8 Property, plant and equipment (continued)

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land, community assets and infrastructure assets which are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Land is not depreciated and is deemed to have indefinite useful life.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset. If a revaluation is necessary, all assets of that class are revalued.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Office equipment	Straight line	3 - 10 years
IT equipment	Straight line	3 - 7 years
Infrastructure	Straight line	3 - 100 years
Community	Straight line	5 - 100 years
Other property, plant and equipment	Straight line	2 - 15 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Accounting Policies

1.8 Property, plant and equipment (continued)

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

In assessing whether there is any indication that the expected useful life of an asset has changed, an entity considers the following indications
- The composition of as asset has changed during the reporting period, that is, the significant components of the asset changed.

1.9 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

Intangible assets are initially recognised at cost

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

1.9 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, internally generated	Straight line	3 - 5 years
Computer software, other	Straight line	3 - 5 years

Amortisation begins when the asset is availabe for use.

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.10 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality’s operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

1.10 Heritage assets (continued)

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.11 Investments in controlled entities

In the municipality's separate annual financial statements, investments in investments in controlled entities are carried at cost.

Investments in controlled entities that are accounted for in accordance with the accounting policy on Financial instruments in the consolidated annual financial statements, are accounted for in the same way in the controlling entity's separate annual financial statements.

1.12 Investments in associates

1.13 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

1.13 Financial instruments (continued)

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

1.13 Financial instruments (continued)

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.13 Financial instruments (continued)

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	**Category**
Receivables	Financial asset measured at amortised cost
Cash and bank	Financial asset measured at cost
Investments	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	**Category**
Borrowings	Financial liability measured at amortised cost
Payables	Financial liability measured at cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.13 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

Accounting Policies

1.13 Financial instruments (continued)

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.13 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the municipality recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.13 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

1.14 Consumer Deposits

The municipality recognises consumer deposits as a current liability when the municipality becomes a party to the contract i.e. when the deposit is made. The consumer deposit is recognised as a liability as the municipality has an obligation to pay the money back to the consumer once the consumer account is closed. As the timing of when a consumer will close their account is unknown, the consumer deposits are classified as a current liability.

1.15 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases - lessor

The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. The liability is not discounted.

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Income for leases is disclosed under revenue in statement of financial performance.

1.15 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.16 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.17 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or

1.17 Impairment of cash-generating assets (continued)

- the number of production or similar units expected to be obtained from the asset by the municipality.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the statement of financial performance in the period the impairment is recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the statement of financial performance.

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

1.17 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.18 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

1.18 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.18 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.19 Employee benefits

Employee benefits are all forms of consideration given by an municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality’s own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an municipality’s decision to terminate an employee’s employment before the normal retirement date; or
- an employee’s decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an municipality’s actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

1.19 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.19 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.19 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

1.19 Employee benefits (continued)

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a municipality shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.19 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.20 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.20 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 54.
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.21 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.22 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.22 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by a variety of methods. Depending on the nature of the transaction, the methods may include:
- surveys of work performed;
- services performed to date as a percentage of total services to be performed;
- the proportion that costs incurred to date bear to the estimated total costs of the transaction. Only costs that reflect services performed to date are included in costs incurred to date. Only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.23 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

1.23 Revenue from non-exchange transactions (continued)

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.23 Revenue from non-exchange transactions (continued)

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.24 Unspent Conditional Grants

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent where the obligations have not been met, a liability is recognised.

1.25 Additional Note

1.26 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.27 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits or service potential to the municipality, and the costs can be measured reliably. The municipality applies this consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the municipality. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

1.27 Borrowing costs (continued)

The capitalisation of borrowing costs commences when all the following conditions have been met:
- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets and Inventories as per accounting policy number 1.16, 1.17 and 1.18. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is suspended.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the municipality ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.28 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.29 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.30 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.31 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Accounting Policies

1.31 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.32 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.33 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.34 Segment information

A segment is an activity of an entity:
- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

1.34 Segment information (continued)

Measurement

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts are allocated on a reasonable basis.

If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities are reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

1.35 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.36 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Accounting Policies

1.36 Related parties (continued)

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Only transactions with related parties not at arm's length or not in the ordinary cause of business are disclosed.

1.37 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 12 (as amended 2016): Inventories	01 April 2018	The impact of the amendment is not material.
• GRAP 16 (as amended 2016): Investment Property	01 April 2018	The impact of the amendment is not material.
• GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	The impact of the amendment is not material.
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	The impact of the amendment is not material.
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	The impact of the is not material.
• GRAP 27 (as amended 2016): Agriculture	01 April 2018	The impact of the amendment is not material.
• GRAP 31 (as amended 2016): Intangible Assets	01 April 2018	The impact of the amendment is not material.
• GRAP 103 (as amended 2016): Heritage Assets	01 April 2018	The impact of the amendment is not material.
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	The impact of the amendment is not material.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:

2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2019 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	01 April 2099	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2099	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2099	Unlikely there will be a material impact

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	15 152	25 075
Bank balances	61 619 932	2 017 804
	61 635 084	**2 042 879**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
Standard Bank - Account Type - 030172349	118 889 404	27 496 735	22 861 690	58 771 489	615 658	11 694 552
Standard Bank - Account Type - 80472818	656 753	75	416 187	656 753	75	416 187
Standard Bank - Account Type - 251753846	478 828	921 231	871 325	478 828	921 231	871 325
Standard Bank - Account Type - 330535269	508 262	480 840	454 878	508 262	480 840	454 878
Ned Bank - Account Type - 1013906551	-	-	-	-	-	4 575 979
Total	**120 533 247**	**28 898 881**	**24 604 080**	**60 415 332**	**2 017 804**	**18 012 921**

4. Investments

Designated at fair value		
Sanlam	66 410 787	69 297 244
Liberty life	57 829 129	43 203 858
	124 239 916	**112 501 102**

Current assets		
Designated at fair value	124 239 916	112 501 102

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

4. Investments (continued)

Financial assets at fair value

Redemption terms

The Sanlam and Liberty Investments are to be redeemed in July 2019.

5. Receivables from exchange

Gross balances		
Electricity	229 224 022	232 740 827
Water	429 600 639	412 315 501
Waste water	68 727 324	52 693 150
VAT DTRS Control account	-	88 856 434
Refuse	93 994 492	64 845 382
Service charges - Merchandising and jobbing	239 442 846	-
Housing rental	202 943 998	202 702 712
Housing selling schemes	271 512	266 807
	1 264 204 833	**1 054 420 813**

Less: Allowance for impairment		
Provision for doubtful debts	(767 505 474)	(672 195 284)

Net balance		
Electricity	229 224 022	232 740 827
Water	429 600 639	412 315 501
Waste water	68 727 324	52 693 150
VAT DTRS Control account	-	88 856 434
Refuse	93 994 492	64 845 382
Business services levies	(767 505 474)	(672 195 284)
Regional services levies	239 442 846	-
Housing rental	202 943 998	202 702 712
Provision for bad debts	271 512	266 807
	496 699 359	**382 225 529**

Electricity		
Current (0 -30 days)	51 570 711	88 051 387
31 - 60 days	24 073 897	19 814 812
61 - 90 days	18 529 076	18 423 933
91 - 120 days	6 971 201	7 123 068
120 days+	5 407 788	99 327 627
	122 671 349	-
	229 224 022	**232 740 827**

Water		
Current (0 -30 days)	26 549 434	34 383 237
31 - 60 days	22 531 687	20 329 480
61 - 90 days	13 915 194	20 254 133
91 - 120 days	6 047 702	15 551 252
120 days+	360 556 622	321 797 399
	429 600 639	**412 315 501**

Figures in Rand	2019	2018

5. Receivables from exchange (continued)

Waste water		
Current (0 -30 days)	9 052 153	2 656 937
31 - 60 days	5 005 966	4 945 379
61 - 90 days	4 392 638	3 722 694
91 - 120 days	3 090 973	3 182 840
120 days+	2 672 522	38 185 300
	44 513 072	-
	68 727 324	**52 693 150**

VAT on debtors		
> 365 days	-	88 856 434

Refuse		
Current (0 -30 days)	10 455 166	8 605 893
31 - 60 days	5 799 756	5 404 851
61 - 90 days	5 137 832	4 261 621
91 - 120 days	3 538 932	3 844 058
121 - 365 days	3 179 587	42 728 959
> 365 days	65 883 219	-
	93 994 492	**64 845 382**

Provision for impairment		
> 365 days	(767 505 474)	(672 195 284)

Service charges		
Current (0 -30 days)	4 388 414	-
31 - 60 days	2 346 614	-
61 - 90 days	2 123 542	-
91 - 120 days	5 151 648	-
121 - 365 days	1 912 641	-
> 365 days	223 519 987	-
	239 442 846	**-**

Housing rental		
Current (0 -30 days)	81 065	8 302 274
31 - 60 days	80 429	921 817
61 - 90 days	79 793	2 311 986
91 - 120 days	-	699 139
121 - 365 days	-	190 467 496
> 365 days	202 702 711	-
	202 943 998	**202 702 712**

Housing selling schemes		
Current (0 -30 days)	3 200	-
31 - 60 days	3 077	-
61 - 90 days	2 883	-
91 - 120 days	625	-
121 - 365 days	467	-
> 365 days	261 260	266 807
	271 512	**266 807**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

5. Receivables from exchange (continued)

Summary of debtors by customer classification

Total		
Less: Allowance for impairment	496 699 359	382 225 529

Less: Allowance for impairment		
> 365 days	(767 505 474)	(672 195 284)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(972 195 284)	(536 124 466)
Contributions to allowance	204 689 810	(217 048 582)
Debt impairment written off against allowance	-	79 535 978
R/D cheques	-	1 441 786
	(767 505 474)	**(672 195 284)**

Consumer debtors pledged as security

No consumer debtors are pledged as security.).

6. Other receivables from exchange transactions

Amounts paid in advance	7 488 272	7 488 272
Deposits - Eskom	800 724	708 664
Deferred loss on hedges	3 401 857	3 401 857
Beroka football club	759 166	759 166
Rental smoothing receivable	2 290 093	2 290 093
Current portion of housing selling scheme loans	3 891	3 891
Housing selling scheme loans	144 352	144 352
Leelyn Management Parking	164 113	164 113
Standard bank - Interest receivable	1 843 980	863 787
Other debtors	-	591 772
Sundry debtors - auctioneer	-	3 160 310
Debtor suspense account	977 498	977 498
Aganang sundry balances	25 034	25 034
	17 898 980	**20 578 809**

Non-current assets	144 352	144 352
Current assets	17 754 628	20 434 457
	17 898 980	**20 578 809**

Lease rental receivable

Minimum rental receipts		
Within a year	4 486 150	4 789 766
Between 1 and 5 years	20 616 878	19 516 244
After 5 years	67 994 026	73 485 375
	93 097 054	**97 791 385**

7. Receivables from non-exchange transactions

Fines	47 819 866	46 421 215
Consumer debtors - Rates	328 834 036	252 392 157
	376 653 902	**298 813 372**

Notes to the Annual Financial Statements

Figures in Rand		2019	2018

7. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions pledged as security

No none-exchange transactions are pledged as security.

Age analysis - Rates	2019	2018
Current (0 - 30 days)	35 029 403	32 398 612
31 - 60 days	19 373 198	16 365 663
61 - 90 days	15 066 956	10 380 731
91 - 120 days	10 761 705	8 135 052
121 - 365 days	9 764 830	183 485 625
>365 days	249 051 602	-
	339 047 694	**250 765 683**

8. Inventories

		2019	2018
Water for distribution		515 935	368 062
Consumables stores - at cost		137 978 596	155 840 241
Land inventory		5 188 322	6 757 800
		143 682 853	**162 966 103**
Inventories recognised as an expense during the year		-	351 730 040

Water for distribution

		2019	2018
Opening balance		368 062	890 144
Purchases		191 127 360	185 561 023
Issued		(156 497 239)	(160 256 762)
Water losses	42	(34 482 248)	(25 826 343)
Closing balance		**515 935**	**368 062**

9. VAT receivable

	2019	2018
VAT	169 630 526	58 253 018

10. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	749 428 236	-	749 428 236	724 131 490	-	724 131 490

Reconciliation of investment property - 2019

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	724 131 490	(947 312)	26 244 058	749 428 236

10. Investment property (continued)

Reconciliation of investment property - 2018

	Opening balance	Additions	Disposals	Fair value adjustments	Total
Investment property	702 055 306	3 188 690	(9 470 422)	28 357 916	724 131 490

Pledged as security

No investment properties are pledged as security.

The values were determined by an external Professional Valuer registered with the South African Council for the Property Valuers Profession, Registration number 4973/1. The value of investment property, comprising of land and building was determined by using a combination of valuation approaches. Each of these approaches assessed the relevance of each specific property based on their nature, use and comparable market transactions. The preferred valuation methodology applied to vacant land was that of comparable market related sales, based on use, location and extent. In cases where no reasonable comparable sales were available, the discounted cash flow methodology was used based on market related rentals for similar properties. Investment Properties were fair valued by Zack van der Merve, a registered professional valuer, registration number: (SACPVP) - Valuer: 4973.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

There are no restrictions on investment properties.:

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

11. Property, plant and equipment

	2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	181 873 118	-	181 873 118
Buildings	-	(4 635 312)	(4 635 312)
Leasehold property	-	-	-
Plant and machinery	88 942 568	-	88 942 568
Furniture and fixtures	13 072	(54 889 693)	(54 876 621)
Transport assets	335 973 556	(57 108 015)	278 865 541
Computer equipment	25 218 148	(8 349 155)	16 868 993
Infrastructure	23 651 597 511	(13 099 368 029)	10 552 229 482
Community	4 015 585 303	(2 010 912 913)	2 004 672 390
Leased assets	36 031 726	(4 560 467)	31 471 259
Total	**28 335 235 002**	**(15 239 823 584)**	**13 095 411 418**

Assets subject to finance lease (Net carrying amount)

	2019	2018
Leasehold property	-	1
Infrastructure	21 649 765	-
Leased assets	31 471 259	6 693 213
	53 121 024	**6 693 214**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand

12. Biological assets that form part of an agricultural activity

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Game	11 833 140	(7 100 742)	4 732 398	15 570 834	(3 737 694)	11 833 140

Reconciliation of biological assets that form part of an agricultural activity - 2019

	Opening balance	Impairment loss	Total
Game	11 833 140	(7 100 742)	4 732 398

Reconciliation of biological assets that form part of an agricultural activity - 2018

	Opening balance	Changes in fair value adjustment	Total
Game	15 570 834	(3 737 694)	11 833 140

Non-financial information

All biological assets relate to game. There were 844 game at year end. (2018: 1700 game)

13. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets which fair values cannot be reliably measured: (Para .94)						
Heritage sites; memorials and statues	21 899 818	-	21 899 818	21 899 818	-	21 899 818

Reconciliation of heritage assets 2019

	Opening balance	Total
Heritage assets which fair values cannot be reliably measured: (Para .94)		
Heritage sites; memorials and statues	21 899 818	21 899 818

Reconciliation of heritage assets 2018

	Opening balance	Differenc e	Total
Heritage assets which fair values cannot be reliably measured: (Para .94)			
Heritage sites; memorials and statues	21 530 623	**369 195**	21 899 818

Heritage assets which fair values cannot be reliably measured

Pledged as security

No heritage assets are pledged as security:

[Insert terms and conditions here where terms and conditions are the same]

Notes to the Annual Financial Statements

Figures in Rand

14. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Patents, trademarks and other rights	1 304 768	-	1 304 768	1 304 768	-	1 304 768
Computer software, other	43 370 676	(9 273 977)	34 096 699	17 598 538	(7 492 669)	10 105 869
Total	**44 675 444**	**(9 273 977)**	**35 401 467**	**18 903 306**	**(7 492 669)**	**11 410 637**

Reconciliation of intangible assets - 2019

	Opening balance	Difference	Additions	Impairment loss	Total
Patents, trademarks and other rights	1 304 768	**-**	-	-	1 304 768
Computer software, other	10 105 869	**(27 584)**	25 799 722	(1 781 308)	34 096 699
	11 410 637	**(27 584)**	**25 799 722**	**(1 781 308)**	**35 401 467**

Reconciliation of intangible assets - 2018

	Opening balance	Difference	Capital work in progress	Amortisation	Total
Patents, trademarks and other rights	1 304 768	**-**	-	-	1 304 768
Computer software, other	1 607 499	**27 584**	9 049 615	(578 829)	10 105 869
	2 912 267	**27 584**	**9 049 615**	**(578 829)**	**11 410 637**

Pledged as security

No intangible assets are pledged as security:

Figures in Rand	2019	2018

15. Investments in controlled entities

Name of company	Held by	% holding 2019	% holding 2018	Carrying amount 2019	Carrying amount 2018
Polokwane Housing Association		100.00 %	100.00 %	1 000	1 000

The carrying amounts of controlled entities are shown cost.

16. Consumer deposits

	2019	2018
Electricity	51 279 067	52 885 862
Water	11 156 535	10 168 915
Regional services levies	59 583	-
Sundry	1 116 927	9 352 327
	63 612 112	**72 407 104**

17. Payables from exchange transactions

	2019	2018
Trade payables	646 512 951	329 971 589
Payments received in advanced - contract in process	53 678 459	49 318 610
Retentions withheld	119 501 112	86 492 257
Accrued leave pay	114 936 242	112 303 624
Deferred income - Prepaid electricity and water	53 583 849	8 609 971
Provision for bonus	17 275 281	15 458 647
Other minor payables	931 287	5 790 360
	1 006 419 181	**607 945 058**

18. Other financial liabilities

At amortised cost

	2019	2018
Long term loans	522 578 598	561 414 515

The Municipality had entered into a loan agreement with the Development Bank of Southern Africa in February 2011 to borrow R320 million at a interest rate of 8.875% over 10 years. The last instalment is repayable on 30 June 2021.

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The Municipality had entered into a loan agreement with the Development Bank of Southern Africa in February 2011 to borrow R50 million at a interest rate of 11.52% over 10 years. The last instalment is repayable on 30 June 2020.

The Municipality had entered into a loan agreement with the Development Bank of Southern Africa in March 2017 to borrow R235 million at a interest rate of 10.756% over 14.92 years. The last instalment is repayable on 31 January 2032.

The Municipality had entered into a loan agreement with Standard Bank in January 2018 to borrow R205 million at a interest rate of 10.98% over 15years. The last instalment is repayable on 31 January 2032.

Non-current liabilities

	2019	2018
At amortised cost	512 977 719	512 977 719

Current liabilities

	2019	2018
At amortised cost	9 600 879	48 436 796

19. VAT payable

	2019	2018
Tax refunds payables	150 443 488	-

Figures in Rand	2019	2018

20. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Public transport infrastructure grant	55 984 733	131 535 827
Neighbourhood development partnership grant	6 415 024	7 242 025
Local Government - housing accreditation grant	480 840	480 840
Municipal infrastructure grant	25 334 371	10 363 501
Department of Local Government & Housing	2 949 710	2 949 710
Capricorn District Municipality	17 589	900 000
Energy efficiency and demand side management grant	4 191 084	-
Municipal Systems Improvement Grant	376 454	-
Water Services Infrastructure Grant	3 796	-
Intergrated National Electrification Programme	21 125 511	-
Regional bulk infrastructure grant	333 783	-
	117 212 895	**153 471 903**

Movement during the year

Balance at the beginning of the year	153 471 903	41 611 860
Additions during the year	1 229 791 000	863 410 963
Income recognition during the year	(1 264 334 994)	(751 550 920)
Undefined Difference	**(1 715 014)**	**-**
	117 212 895	**153 471 903**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

21. Finance lease obligation

	2019	2018
Minimum lease payments due		
- within one year	-	3 408 423
- in second to fifth year inclusive	-	4 156 431
Present value of minimum lease payments	**-**	**7 564 854**
Present value of minimum lease payments due		
- within one year	-	3 408 423
- in second to fifth year inclusive	-	4 156 431
	-	**7 564 854**
Non-current liabilities	24 420 518	3 961 712
Current liabilities	2 872 234	2 872 234
	27 292 752	**6 833 946**

It is municipality policy to lease certain [property]motor vehicles and equipment under finance leases.

The average lease term was x-y years and the average effective borrowing rate was -% (2018: -%).

Interest rates are at the contract date. All leases and .

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note
.

22. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Increase due to change in provision	Total
Provision for rehabilitation of landfill sites	76 229 764	41 905 667	118 135 431
Provision for Fleet Africa	8 164 940	-	8 164 940
Provision for ex gratia benefits	10 648 000	49 000	10 697 000
Provision for long service awards	40 654 000	4 798 000	45 452 000
	135 696 704	**46 752 667**	**182 449 371**

Reconciliation of provisions - 2018

	Opening Balance	Increase due to change in provision	Total
Provision for rehabilitation of landfill sites	64 273 890	11 955 874	76 229 764
Provision for Fleet Africa	-	8 164 940	8 164 940
Provision for ex gratia benefits	10 124 000	524 000	10 648 000
Provision for long service awards	36 070 000	4 584 000	40 654 000
	110 467 890	**25 228 814**	**135 696 704**

	2019	2018
Non-current liabilities	174 284 431	127 531 764
Current liabilities	8 164 940	8 164 940
	182 449 371	**135 696 704**

Provision for ex gratia benefits

Reconciliation of provision for ex gratia benefits	2019	2018
Opening balance	10 648 000	10 124 000
Current service cost	1 034 000	985 000
Interest	999 000	1 017 000
Benefits paid	(938 223)	(628 709)
Actuarial (gain)/loss	(1 045 777)	(849 291)
	10 697 000	**10 648 000**

Provision for long service awards

Reconciliation of provision of long service awards	2019	2018
Opening balance	40 654 000	36 070 000
Current service cost	4 130 000	3 685 000
Interest cost	3 716 000	3 303 000
Benefits paid	(150 579)	(2 857 000)
Actuarial loss/(gain)	(2 897 421)	453 000
	45 452 000	**40 654 000**

23. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

	2019	2018
Carrying value		
Accrued liability at the beginning of the year	(163 547 000)	(160 479 000)
Current service cost	(5 956 000)	(6 231 000)
Interest cost	(16 175 000)	(16 356 000)
Benefits paid	6 770 366	6 494 009
Actuarial (loss)/gain	(14 998 366)	13 024 991
	(193 906 000)	**(163 547 000)**

The municipality operates on 7 accredited medical aid schemes, namely Bonitas, Hosmed, Key-Health, LA Health and Samwumed, Resolution Health, and Government Employees Medical Scheme. Pensioners may continue on the option they belonged to on the day of their retirement.
The last post-employment health care benefits actuarial valuation in terms of GRAP 25 was done by ZAQ Consultants and Actuaries for the period ending 30 June 2019.

24. Revaluation reserve

	2019	2018
Opening balance	7 426 020 555	7 369 438 589
Change during the year	(1 483 220)	56 581 966
	7 424 537 335	**7 426 020 555**

25. Service charges

	2019	2018
Sale of electricity	987 163 114	889 069 398
Sale of water	208 599 463	237 800 971
Solid waste	102 693 559	103 468 295
Sewerage and sanitation charges	107 293 394	97 777 381
	1 405 749 530	**1 328 116 045**

26. Rental of facilities and equipment

	2019	2018
Facilities and equipment		
Rental of facilities	14 721 734	15 730 400

27. Agency services

	2019	2018
Management Fees	23 520 165	17 345 085

28. Licences and permits (exchange)

	2019	2018
Dog	9 664	27 745
Roads and transport	2 627	-
Trading	60 797	1 067 275
Road and Transport	11 168 432	10 156 013
	11 241 520	**11 251 033**

29. Other income

	2019	2018
Administrative handling fees	222 211	503 099
Burial fees	1 048 737	993 424
Sale of erven	8 999 722	3 766 957
Building plan fees	7 031 550	5 786 644
Indigent fees	(6 749 306)	11 216 649
Surcharge excess water consumption	(353 189)	80 949 534
Admission fees	541 940	184 897
Tender deposits	13 248	25 697
Municipal information & statistics	57 097	1 434 645
Insurance claims	1 594 210	1 462 330
Refund seta levy	817 271	944 412
Other minor income	446 357	1 636 427
Royalties	-	528 242
Profit on sale of erven	-	3 208 018
	13 669 848	**112 640 975**

30. Interest received - Investments

	2019	2018
Interest revenue		
Bank	13 123 882	29 592 700

31. Property rates

Rates received

	2019	2018
Residential	132 845 938	91 679 638
Commercial	133 527 825	151 555 213
State	30 784 932	24 370 028
Municipal	14 270 709	15 504 817
Small holdings	65 305 825	19 098 581
Farm properties	41 269 573	57 952 992
	418 004 802	**360 161 269**

Valuations

	2019	2018
Residential	34 273 989	33 159 299
Commercial	17 400 140	18 252 474
State	3 529 330	2 618 640
Municipal	1 322 057	1 191 772
Other	6 377 864	7 570 881
	62 903 380	**62 793 066**

32. Licences and permits (non-exchange)

33. Interest, dividends and Rent on Land

	2019	2018
Interest - Receivables	64 961 794	77 045 047

Figures in Rand	2019	2018

34. Government grants and subsidies

Operating grants		
Equitable share	831 436 435	752 057 000
Finance management grant	3 048 461	2 979 000
Municipal infrastructure grant	45 278 526	84 374 183
Integrated national electrification programme grant	-	20 497 925
Energy Efficiency and demand side management grant	3 813 263	6 000 000
Public transport infrastructure grant	54 867 882	58 736 250
Infrastructure skills development grant	6 500 000	7 213 000
Water Service Infrastructure Grant	-	3 044 000
Expanded public works programme incentive grant	5 742 000	4 978 000
Municipal systems improvement grant	678 546	-
	951 365 113	**939 879 358**
Capital grants		
Municipal infrastructure grant	260 264 610	274 542 818
Public transport infrastructrure grant	311 124 429	28 270 844
Neighbourhood development grant	39 282 699	33 784 975
Regional bulk infrastructure grant	370 171 243	209 676 000
Water services infrastructure grant	87 748 243	-
Integrated National Electrification Program	17 831 489	-
	1 086 422 713	**546 274 637**
	2 037 787 826	**1 486 153 995**

Conditional and Unconditional

Equitable Share

Public transport network grant

Balance unspent at beginning of year	131 535 827	4 808 921
Current-year receipts	330 107 000	216 734 000
Conditions met - transferred to revenue	(365 992 093)	(87 007 094)
Paid back to National Treasury	(39 666 001)	(3 000 000)
	55 984 733	**131 535 827**

Conditions still to be met - remain liabilities (see note 20).

Neighbourhood development partnership grant

Balance unspent at beginning of year	7 242 025	12 455 425
Current-year receipts	45 000 000	41 027 000
Conditions met - transferred to revenue	(38 585 001)	(33 784 975)
Paid back to National Treasury	(7 242 000)	(12 455 425)
	6 415 024	**7 242 025**

Conditions still to be met - remain liabilities (see note 20).

Limpopo local government & housing

Balance unspent at beginning of year	480 840	454 878
Current-year receipts	-	25 962
	480 840	**480 840**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

34. Housing development fund (continued)

Conditions still to be met - remain liabilities (see note 20).

Municipal infrastructure grant

Balance unspent at beginning of year	10 363 501	59 047 078
Current-year receipts	330 877 000	339 578 000
Conditions met - transferred to revenue	(305 543 130)	(358 917 002)
Paid back to National Treasury	(10 363 000)	(29 344 575)
	25 334 371	**10 363 501**

Conditions still to be met - remain liabilities (see note 20).

Department of Local Government and Housing Grant

Balance unspent at beginning of year	2 949 710	2 949 710

Conditions still to be met - remain liabilities (see note 20).

Capricorn District Municipality

Balance unspent at beginning of year	900 000	-
Current-year receipts	(882 411)	900 000
	17 589	**900 000**

Conditions still to be met - remain liabilities (see note 20).

Expanded public works programme integrated grant

Current-year receipts	5 742 000	4 978 000
Conditions met - transferred to revenue	(5 742 000)	(4 978 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 20).

Energy efficiency and demand side management grant

Current-year receipts	8 000 000	6 000 000
Conditions met - transferred to revenue	(3 808 916)	(6 000 000)
	4 191 084	**-**

Conditions still to be met - remain liabilities (see note 20).

Equitable Share

Current-year receipts	831 436 000	752 057 000
Conditions met - transferred to revenue	(831 436 000)	(752 057 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 20).

Finance Management Grant

Current-year receipts	3 048 000	-
Conditions met - transferred to revenue	(3 048 000)	-

Figures in Rand	2019	2018

34. Housing development fund (continued)

	-	-

Conditions still to be met - remain liabilities (see note 20).

Municipal Systems Improvement grant

Current-year receipts	1 055 000	-
Conditions met - transferred to revenue	(678 546)	-
	376 454	-

Conditions still to be met - remain liabilities (see note 20).

Water Services Infrastructure Grant

Current-year receipts	90 000 000	-
Conditions met - transferred to revenue	(89 996 204)	-
	3 796	-

Conditions still to be met - remain liabilities (see note 20).

Integrated National Electrification Programme

Current-year receipts	38 957 000	2 979 000
Conditions met - transferred to revenue	(17 831 489)	(2 979 000)
	21 125 511	-

Conditions still to be met - remain liabilities (see note 20).

Regional Infrastructure Grant

Current-year receipts	370 505 000	209 676 000
Conditions met - transferred to revenue	(370 171 217)	(209 676 000)
	333 783	-

Conditions still to be met - remain liabilities (see note 20).

Infrastructure Skills Development grant

Current-year receipts	6 500 000	7 213 000
Conditions met - transferred to revenue	(6 500 000)	(7 213 000)
	-	-

Conditions still to be met - remain liabilities (see note 20).

35. Public contributions and donations

Public contributions and donations	1 551 667	1 036 482

Conditions still to be met - remain liabilities (see note 20)

Provide explanations of conditions still to be met and other relevant information

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

36. Fines, Penalties and Forfeits

Illegal Connections Fines	(33 583)	652
Law Enforcement Fines	134 726	-
Overdue Books Fines	29 202	57 915
Municipal Traffic Fines	35 633 912	20 926 501
	35 764 257	**20 985 068**

37. Revenue

Service charges	1 405 749 530	1 328 116 045
Rental of facilities and equipment	14 721 734	15 730 400
Interest received (trading)	-	(84 188)
Agency services	23 520 165	17 345 085
Licences and permits	11 241 520	11 251 033
Other income - (rollup)	13 669 848	112 640 975
Interest received - investment	13 123 882	29 592 700
Property rates	418 004 802	360 161 269
Interest earned on outstanding debtors	64 961 794	77 045 047
Government grants & subsidies	2 037 787 826	1 486 153 995
Public contributions and donations	1 551 667	1 036 482
Fines, Penalties and Forfeits	35 764 257	20 985 068
	4 040 097 025	**3 459 973 911**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	1 405 749 530	1 328 116 045
Rental of facilities and equipment	14 721 734	15 730 400
Interest received (trading)	-	(84 188)
Agency services	23 520 165	17 345 085
Licences and permits	11 241 520	11 251 033
Other income - (rollup)	13 669 848	112 640 975
Interest received - investment	13 123 882	29 592 700
	1 482 026 679	**1 514 592 050**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	418 004 802	360 161 269
Interest earned on outstanding debtors	64 961 794	77 045 047
Transfer revenue		
Government grants & subsidies	2 037 787 826	1 486 153 995
Public contributions and donations	1 551 667	1 036 482
Fines, Penalties and Forfeits	35 764 257	20 985 068
	2 558 070 346	**1 945 381 861**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

38. Employee related costs

Basic	484 030 656	443 144 524
Bonus	37 572 457	32 758 657
Medical aid - company contributions	32 094 133	29 107 079
UIF	3 808 521	3 260 534
Leave pay provision charge	18 630 871	29 621 914
Defined contribution plans	87 140 998	79 904 424
Travel, motor car, accommodation, subsistence and other allowances	53 137 752	48 101 994
Overtime payments	75 112 689	61 056 457
Long-service awards	5 935 801	5 990 550
Housing benefits and allowances	56 833 221	27 505 209
	854 297 099	**760 451 342**

Remuneration of municipal manager

The Municipal Manager was appointed in May 2017.

Annual remuneration	1 524 940	1 445 990
Housing allowance	278 507	264 954
Motor car allowance	267 885	254 160
Councillor contributions	273 889	259 962
	2 345 221	**2 225 066**

Remuneration of chief finance officer

Annual remuneration	1 127 318	888 533
Motor car allowance	146 829	132 375
Council contribution	44 315	34 911
Housing allowance	557 714	427 880
Acting allowance	-	129 237
	1 876 176	**1 612 936**

Director Planning and Economic Development

Annual remuneration	1 221 127	977 929
Motor car allowance	225 141	195 806
Council contribution	246 942	213 911
Housing allowance	182 966	162 665
	1 876 176	**1 550 311**

Director Engineering Services

Annual remuneration	572 755	963 268
Motor car allowance	85 686	257 057
Council contributions	81 870	244 718
	740 311	**1 465 043**

Director Community Services

Annual remuneration	1 219 514	458 796
Motor car allowance	281 426	126 000
Council contributions	204 412	116 330
Housing benefits	170 823	-
Acting allowance	-	81 912
Termination settlement	-	6 800 000

Figures in Rand	2019	2018

38. Government grant reserve (continued)

	1 876 175	**7 583 038**

Director Corporate and Shared Service

Annual remuneration	1 219 514	67 401
Motor car allowance	281 426	17 000
Council contributions	58 070	12 289
Housing allowances	317 166	6 000
Cellphone allowance	-	1 000
Termination settlement	-	285 454
	1 876 176	**389 144**

Director Community Development

Annual remuneration	-	1 026 146
Motor car allowance	-	66 752
Council contributions	-	14 986
Housing allowances	-	75 206
Acting allowances	91 362	-
Termination settlement	-	72 876
	91 362	**1 255 966**

Annual remuneration	1 219 514	356 011
Motor car allowance	281 426	89 003
Council contributions	170 823	64 677
Housing allowances	204 412	53 993
	1 876 175	**563 684**

Director Transportation Services

Annual remuneration	1 213 878	267 008
Motor car allowance	281 427	66 752
Council contributions	210 047	54 143
Housing benefits	170 823	34 859
	1 876 175	**422 762**

No performance bonuses were paid out in terms of Section 57 of the Muncipal Systems Act.

39. Remuneration of councillors

Executive Major	1 049 579	802 955
Mayoral Committee Members	8 549 647	10 352 178
Speaker	856 342	673 396
Councillors	27 498 139	24 361 582
	37 953 707	**36 190 111**

40. Depreciation and amortisation

Property, plant and equipment	729 667 599	798 309 037

41. Finance costs

Non-current borrowings	62 780 466	63 644 729

Figures in Rand	2019	2018

42. Bulk purchases

Electricity - Eskom	636 975 098	625 834 630
Water	184 004 164	176 530 740
	820 979 262	**802 365 370**

Electricity losses

Distribution loss in KWH	62 294 114	119 669 669

Percentage Loss:		
Through distribution	9 %	16 %

Rand value		
Distribution losses	55 249 012	99 905 157

Water losses

Distribution losses	34 862 765	25 826 344

Distribution loss in KL	6 776 956	5 248 544

Percentage Loss:		
Loss through distribution	18 %	14 %

43. Contracted services

Outsourced Services		
Administrative and Support Staff	334 369	777 574
Animal Care	276 770	-
Burial Services	1 251 936	682 759
Business and Advisory	97 664 551	53 618 086
Catering Services	524 069	39 119
Call Centre	1 867 109	-
Cleaning Services	1 802 397	1 596 825
Clearing and Grass Cutting Services	2 469 465	6 599 129
Fire Services	7 625	-
Litter Picking and Street Cleaning	-	5 007 009
Meter Management	30 942 320	90 068 174
Organic and Building Refuse Removal	800 000	801 083
Personnel and Labour	27 545 421	13 222 460
Connection/Dis-connection	6 793 567	63 275 393
Refuse Removal	84 256 569	16 804 004
Security Services	43 773 973	42 357 561
Sewerage Services	31 882 742	60 593 342
Swimming Supervision	-	355 499
Translators, Scribes and Editors	64 125	-
Transport Services	32 453 512	-
Drivers Licence Cards	2 840	-
Electrical	1 253 596	5 518 077

Figures in Rand	2019	2018

43. Rental of facilities and equipment (continued)

Consultants and Professional Services		
Business and Advisory	170 591 332	157 244 763
Infrastructure and Planning	78 816 174	62 409 892
Laboratory Services	16 914 791	1 159 968
Legal Cost	20 729 906	14 032 229
Contractors		
Building	-	8 353 598
Catering Services	778 347	361 056
Distribution of Electricity by Others	-	49 287 214
Electrical	54 561 133	-
Employee Wellness	304 072	267 259
Event Promoters	108 921	-
Fire Protection	1 734 638	1 055 351
Gardening Services	2 676 540	4 026 811
Grading of Sport Fields	1 289 226	701 970
Maintenance of Buildings and Facilities	30 299 172	25 512 160
Maintenance of Equipment	26 878 316	40 595 197
Maintenance of Unspecified Assets	34 466 178	11 216 200
Management of Informal Settlements	433 492	260 815
Transportation	5 996 205	5 205 424
Sewerage Services	2 057 688	3 182 560
Sports and Recreation	-	3 091 966
Forestry	-	605 018
	814 603 087	**749 885 545**

44. Grants and subsidies paid

Other subsidies		
SPCA	480 000	479 750
Polokwane Housing Association	7 940 000	9 000 000
	8 420 000	**9 479 750**

45. Inventory consumed

Standard rated	3 638 839	5 531 188
Zero rated	367 632	558 544
Water consumed	-	406 633
Materials and supplies	65 356 928	86 975 785
	69 363 399	**93 472 150**

Figures in Rand	2019	2018

46. General expenses

Advertising	21 486 527	26 508 676
Auditors remuneration	9 960 322	12 704 085
Bank charges	4 871 370	2 626 574
Entertainment	274 142	345 187
Hire	3 870 736	4 673 230
Insurance	13 943 206	12 681 628
IT expenses	8 781 357	17 421 706
Levies	6 967 443	6 207 496
Fuel and oil	36 389 177	21 729 040
Placement fees	-	2 281 609
Postage and courier	6 938 616	4 614 458
Printing and stationery	80 707	(26 214)
Protective clothing	16 383 397	9 247 880
Subscriptions and membership fees	348 826	7 268 623
Telephone and fax	14 372 655	12 498 215
Travel - local	2 380 737	5 262 291
Title deed search fees	43 266	994 446
Municipal services	4 223 316	11 887 200
Management fees	4 072 534	53 308 940
Other expenses	83 762 269	52 824 047
	239 150 603	**265 059 117**

47. Fair value adjustments

Biological assets - (Fair value model)	(7 100 742)	(3 737 694)
Investment in associates	-	6 304 252
Other financial assets		
• Investments (Designated as at FV through P&L	(2 461 186)	1 901 029
	(9 561 928)	**4 467 587**

48. Impairment of assets

Impairments		
Property, plant and equipment	3 540 467	4 853 363

[Disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information has otherwise been disclosed:]

The main classes of assets affected by impairment losses are:

The main classes of assets affected by reversals of impairment losses are:

The main events and circumstances that led to the recognition of these impairment losses are as follows:

The main events and circumstances that led to the reversals of these impairment losses are as follows:

49. Auditors' remuneration

Fees	9 960 322	12 704 085

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

50. Cash generated from operations

Surplus (deficit)	256 321 338	(216 619 200)
Adjustments for:		
Depreciation and amortisation	729 667 599	798 309 037
Loss on sale of assets and liabilities	(18 648 702)	(54 397 647)
Income from equity accounted investments	-	(40 656)
Fair value adjustments	9 561 928	(4 467 587)
Impairment deficit	3 540 467	4 853 363
Bad debts written off	152 106 772	151 266 404
Movements in retirement benefit assets and liabilities	30 359 000	163 547 000
Movements in provisions	46 752 667	135 696 704
Changes in working capital:		
Inventories	19 283 250	(162 966 103)
Other receivables from exchange transactions	2 679 829	(20 578 809)
Consumer debtors	(114 473 830)	(382 225 529)
Other receivables from non-exchange transactions	(77 840 530)	(298 813 372)
Payables from exchange transactions	398 474 123	607 945 058
VAT	39 065 980	(58 253 018)
Unspent conditional grants and receipts	(36 259 008)	153 471 903
Consumer deposits	(8 794 992)	72 407 104
	1 431 795 891	**889 134 652**

Notes to the Annual Financial Statements

51. Prior period errors

Statement of Financial Position

	Audited	Prior year adjustments	Reclassifying adjustments	Restated
Assets				
Current Assets				
Cash and cash equivalents	-	-	-	-
Receivables from exchange transactions	658 444 827	-	(276 219 298)	382 225 529
Other receivables from exchange transactions	66 935 969	-	(46 501 512)	20 434 457
Receivables from non-exchange transactions	-	-	298 813 372	298 813 372
Current portion of receivables	3 891	-	(3 891)	-
	725 384 687	**-**	**(23 911 329)**	**701 473 358**
Non-Current Assets				
Property, plant and equipment	2 583 796 088	87 562 335	-	2 671 358 423
Heritage assets	15 595 566	6 304 252	-	21 899 818
Intangible assets	11 383 052	27 585	-	11 410 637
Investment property	732 808 388	(8 676 898)	-	724 131 490
	3 343 583 094	**85 217 274**	**-**	**3 428 800 368**
Total Assets	**4 068 967 781**	**85 217 274**	**(23 911 329)**	**4 130 273 726**
Liabilities				
Current Liabilities				
Provisions	-	(8 164 940)	-	(8 164 940)
Non-Current Liabilities				
Employee benefit obligation	-	(163 547 000)	-	(163 547 000)
Provisions	(299 243 705)	171 711 941	-	(127 531 764)
	(299 243 705)	**8 164 941**	**-**	**(291 078 764)**
Total Liabilities	**(299 243 705)**	**1**	**-**	**(299 243 704)**
Net Assets	**4 368 211 486**	**85 217 273**	**(23 911 329)**	**4 429 517 430**

51.1 Receivables from exchange transactions

Balance previously reported	658 444 827
Prior period restatement - Rates receivable	(276 219 298)
	382 225 529

It was decided to reclassify receivables from property rates, amounting to R252 392 157 to receivables from non exchange transactions to allow for presentation to be in line with Treasury guidelines.

Notes to the Annual Financial Statements

51. Prior period errors (continued)

51.2 Other receivables from exchange transactions

Balance previosly reported	66 935 969
Fines - non exchange receivable	(46 505 403)
Current portion of housing selling scheme loans	3 891
Non current portion of housing selling scheme loans - included in the total - however seperately disclosed on the face	144 352
	20 578 809

Non exchange receivables were previously recorded in the "other receivable from non exchange transactions - unless specified otherwise" line item on the face of the Statement of Financial Position. Withing the current financials, these amounts were reclassified to a new line item called "Receivables from non exchange transactions" to enhance presentation. Furthermore, the current portion for the housing selling scheme loans were included in this line.

51.3 Receivables from non-exchange transactions

Balance previosly reported	-
Property rates	252 392 157
Fines	46 421 215
	298 813 372

An additional line item - "Receivables fron non exchange transactions" was added to the face of the Statement of Financial Position to ensure compliance with Treasury guidelines and to enhance presentation.

51.4 Property, plant and equipment

Balance previosly reported	4 173 691 900
Correction of depreciation and identification of assets not previously recognised	8 497 666 523
	12 671 358 423

Correction of prior period errors with regards to incorrect depreciation charge and recognition of cost and accumulated depreciation of library books not previously recognised..

51.5 Intangible assets

Balance previosly reported	6 777 133
Add: recognition of intangible assets previously expensed	4 633 504
	11 410 637

Notes to the Annual Financial Statements

51. Prior period errors (continued)

Statement of Financial Performance

	Audited	Prior year adjustments	Reclassifying adjustments	Restated
Revenue				
Revenue from exchange transactions				
Interest received (trading)	-	(84 188)	-	(84 188)
Expenditure				
Depreciation and amortisation	(885 858 301)	87 549 264	-	(798 309 037)
Bad debt	(4 853 363)	-	-	(4 853 363)
Finance costs	(63 644 729)	-	-	(63 644 729)
Sale of goods/Inventory	(93 472 150)	-	-	(93 472 150)
Bulk purchases	(802 365 370)	-	-	(802 365 370)
Contracted services	(749 885 545)	-	-	(749 885 545)
Transfers and subsidies	(9 479 750)	-	-	(9 479 750)
General Expenses	(1 212 966 974)	-	-	(1 212 966 974)
Total expenditure	**(3 822 526 182)**	**87 549 264**	**-**	**(3 734 976 918)**
Operating deficit	**(3 822 526 182)**	**87 465 076**	**-**	**(275 003 007)**
Gain on disposal of assets and liabilities	66 282 564	(11 884 917)	-	54 397 647
Fair value adjustments	(1 836 665)	6 304 252	-	4 467 587
Inventories (losses/write-downs)/ reversal of write downs	(522 083)	-	-	(522 083)
	63 923 816	**(5 580 665)**	**-**	**58 343 151**
Deficit for the year	**(3 758 602 366)**	**81 884 411**	**-**	**(216 659 856)**

52. Additional disclosure in terms of Municipal Finance Management Act

Contributions to SALGA

Current year subscription / fee	7 780 110	7 268 623
Amount paid - current year	(7 780 110)	(7 268 623)
	-	-

Audit fees

Current year subscription / fee	12 763 678	9 192 616
Amount paid - current year	(12 763 678)	(9 192 616)
	-	-

PAYE and UIF

Current year subscription / fee	135 408 623	108 277 997
Amount paid - current year	(135 408 623)	(108 277 997)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	185 177 700	113 193 400
Amount paid - current year	(185 177 700)	(113 193 400)
	-	-

Notes to the Annual Financial Statements

52. Bulk purchases (continued)

VAT

VAT receivable	169 630 526	58 253 018
VAT payable	150 443 488	-
	320 074 014	**58 253 018**

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Notes to the Annual Financial Statements

52. Bulk purchases (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
TSP Mojapelo	1 673	10 452	12 125
MF Ramaphakela	4 416	5 157	9 573
	6 089	**15 609**	**21 698**

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
TSP Mojapelo	1 576	10 984	12 560
MB Malebana	1 741	4 735	6 476
ME Makamela	-	821	821
HF Marx	5 976	1 126	7 102
MD Monakedi	3 840	7 581	11 421
LM Mothiba	335	2 958	3 293
MA & ES Mathabatha	5 015	4 541	9 556
MW Letsoalo	8 191	132 307	140 498
	26 674	**165 053**	**191 727**

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2019	Highest outstanding amount	Aging (in days)
TSP Mojapelo	12 125	90
MF Ramaphakela	9 574	90
	21 699	**180**

30 June 2018	Highest outstanding amount	Aging (in days)
MW Letsoalo	132 307	90
TSP Mojapelo	10 984	90
MD Monakedi	7 581	90
MB Malebana	4 735	90
MA & ES Mathabatha	4 541	90
LM Mothiba	2 958	90
HF Marx	1 126	90
ME Makamela	821	90
	165 053	**720**

Notes to the Annual Financial Statements

53. Commitments

Authorised capital expenditure

Capital commitments - approved and contracted for		
• Infrastructure	1 079 685 150	1 586 369 877
• Community	42 016 895	91 062 234
• Other	5 073 780	9 107 184
	1 126 775 825	**1 686 539 295**

Total capital commitments		
Already contracted for but not provided for	1 126 775 825	1 686 539 295

54. Contingencies

Contingent liabilities	174 827 428	139 398 133

See Annexure G for detail on Contingent Liabilities..

The above legal matters are ongoing and have not yet been finalised.

55. Unauthorised expenditure

Opening balance as previously reported	433 241 764	576 210 348
Opening balance as restated	**433 241 764**	**576 210 348**
Add: Unauthorised expenditure - current year	489 207 492	411 050 617
Less: authorised by council	-	(557 450 214)
Add: excess amount erroneously authorised by council	-	3 431 013
Closing balance	**922 449 256**	**433 241 764**

The opening balance and current year unauthorized expenditure will be subjected to Council's authorization.

Analysed as follows: non-cash

Employee related cost	-	3 979 000
Depreciation and amortisation	489 207 492	300 698 270
Provision of impairment	-	96 266 404
	489 207 492	**400 943 674**

Analysed as follows: cash

General expenditure	-	10 106 943

56. Fruitless and wasteful expenditure

Opening balance as previously reported	8 629	8 629
Opening balance as restated	**8 629**	**8 629**
Add: Fruitless and wasteful expenditure for the year	-	98 208
Less: Amounts recoverable - prior period	-	(98 208)
Closing balance	**8 629**	**8 629**

Notes to the Annual Financial Statements

57. Irregular expenditure

Opening balance as previously reported	562 536 969	473 085 661
Opening balance as restated	**562 536 969**	**473 085 661**
Add: Irregular Expenditure for the year	3 512 495	89 451 308
Closing balance	**566 049 464**	**562 536 969**

Other

Included in the opening balance is an amount of R7 101 865 from the former Aganang municipality

58. Risk management

Fair value

The table below analyses financial instruments carried at fair value at the end of the reporting period, by level of fair value hierarchy. The different levels are based on the extent to which quoted prices are used in the calculation of the fair value of the financial instruments and have been defined as follows:

Level 1
Fair values are bases on quoted market prices in active markets for an identical instrument.

Level 2
Fair values are calculated using valuation techniques based on observable inputs. This category includes instruments valued using quoted market prices in active markets for similar instruments.

Level 3
Fair values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

Level 1		
Cash and cash equivalents	61 635 084	2 042 879
Level 2		
Investments	124 239 916	112 502 102
Level 3		
Investments	1 000	1 000
Total		
Investments	124 240 916	112 503 102
Cash and cash equivalents	61 635 084	2 042 879
	185 876 000	**114 545 981**

Financial risk management

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality’s financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

58. Other transfer revenue 1 (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

Fair value

Figures in Rand	2019	2018

59. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report note
Controlled entities	Refer to note 15
Members of key management	Name
	Name

Remuneration of management

Councillors/Mayoral committee members

2019

	Basic salary	Travel	Medical aid allowance	Pension contribution
Name				
Executive mayor	706 355	120 000	74 420	105 95
Speaker	641 971	67 115	-	96 29
Chief Whip	468 006	188 761	28 077	70 20
Mayoral committee members	4 563 399	1 508 091	111 301	683 87
Councillors	15 670 038	5 801 877	249 205	2 339 71
Chiefs	56 684	-	-	
Undefined Difference				
	22 106 453	**7 685 844**	**463 003**	**3 296 04**

2018

Name
Executive mayor
Speaker
Chief Whip
Mayoral Committee members
Councillors

Executive management

60. Going concern

In terms of the accounting standard GRAP 1 paragraphs 27 to 30 the annual financial statements are prepared on a going concern basis. The assumption is based on the fact that the municipality a constitutional mandate to levy additional rates or taxes to enable the municipality to be considered as a going concern even though the municipality will be operational for extended periods with negative net assets.

The municipality’s budget is substantially funded by the government which has not announced any intention to cease funding the municipality. Furthermore, based on the current solvency and liquidity ratio’s tests performed, themunicipality's ability to operate as a going concern is not under threat.

61. Events after the reporting date

Disclose for each material category of non-adjusting events after the reporting date:
- nature of the event.
- estimation of its financial effect or a statement that such an estimation cannot be made.

62. Budget differences

Material differences between budget and actual amounts

Figures in Rand	2019	2018

62. Fair value adjustments (continued)

Sanitation revenue: Attributable to shortage and unauthorised connection of water.

Rental of facilities: Attributable to competition and under-utilisation of municipal facilities.

Fines, penalties and forfeits: Overachievement attributable to reconciliation and possible increase on services and fines.

Other revenue: Overprojected on budgeting.

Depreciation and asset impairment: Due to the reassessment of useful lives.

Contracted services: Variances are high due to the misclassification of line items, acquisition of financial systems and regravelling of roads. The expenditure has been moved to Capex.

Transfers and subsidies: The entity had anticipated increased cost due to Ga-Rena phase 2 project which was delayed and therefore resulted in a saving.

Capital expenditure: Over expenditure is on CRR due to the misclassification of the items mentioned in contracted services.(Refer to explanation on the variance under Contracted services).

63. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Prescribed procurement processes were not followed but was approved by the Municipal Manager in terms of delegated powers and in accordance with Supply Chain Management Regulations and Policy. Valid reasons for deviations were recorded in all instances.

Deviations rand value (For details on the amounts - refer to Annexure K)	10 188 415	68 688 001

Manufacturing Statement

Figures in Rand	Note(s)	2019	2018

* See Note 51